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Utilization and it's Effect on Blend Prices

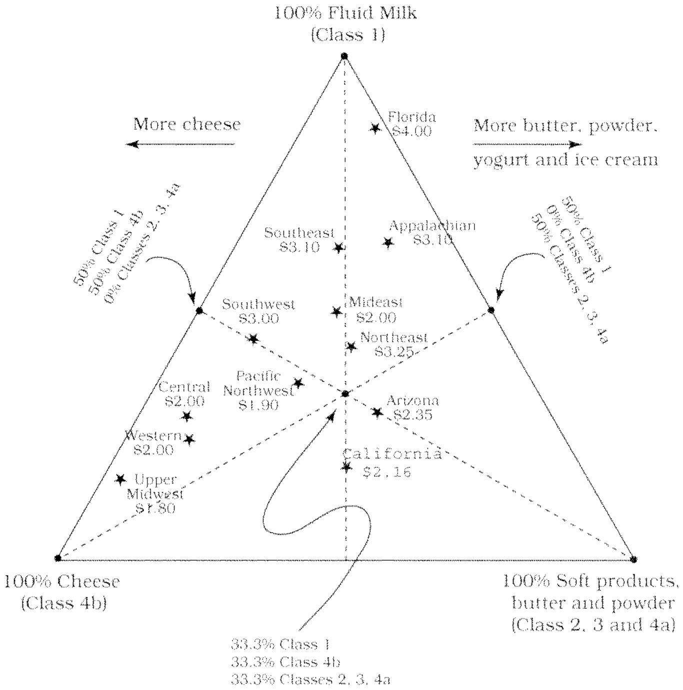
This article looks at the effect utilization has on blend prices, both in California and in federal orders.

Since April 2000, California and the eleven federal orders have used the same market place bases for classified pricing. California Class 2, 3 and 4a prices and federal Class II and IV prices, are all based on prices for butter and nonfat dry milk. California Class 4b prices, as well as federal Class III prices, are based on prices for Cheddar cheese. California Class 1 prices and federal Class I prices, are driven by the "higher of" either prices for butter and nonfat dry milk or prices for Cheddar cheese.

Differences in blend prices among all orders depend on differences in utilization in each class as well as the level of the Class I differential.

The accompanying chart and table compare utilization, Class I differentials and blend prices among federal orders and California. The chart is in the form of a triangle: high Class I utilization is at the top, high Class 4b utilization is at the lower left, and high Class 2, 3 and 4a utilization is at the lower right.

Utilization of Milk in California and Federal Orders



The calculated California differential equals the California Class 1 price (weighted average based on utilization) less the federal Class I base price, averaged from April through August 2000.

--Continued on Page 3--

June Milk Production

Milk production in California for June 2000 totaled 2.7 billion pounds, up 6.8 percent from June 1999. Year to date milk production for California is up 7.9 percent. USDA's estimate for U.S. milk production June 2000 is 12.1 billion pounds, up 2.8 percent from June 1999. Production per cow in the 20 major states averaged 1,546 pounds for June, which is 30 pounds more than June 1999.

July Quota Transfer Summary

In July 2000, 3 dairy producers transferred 4,742 pounds of solid-not-fat (SNF) quota. The quota sales, averaged $411 per pound of SNF (without cows), with an average ratio of 2.57. These transfers were effective August 1, 2000. This compares to 5 producers transferring 7,909 pounds of SNF quota in July 1999, averaging $402 per pound of SNF (without cows), with an average ratio of 2.47.

Minimum Class Prices

Statewide average hundredweight prices

Class	July	August	September
1	$13.78	$14.56	---
2	$12.48	$12.85	$12.85
3	$12.32	$12.68	$12.68
4a	$11.85	---	---
4b	$10.64	---	---

California Department of Food and Agriculture

William (Bill) Lyons Jr. Secretary Undersecretary (vacant), Robert "Tad" Bell, Deputy Secretary, Chris M. Wagaman, Deputy Secretary, Daniel E. Webb, Deputy Secretary, Vanessa Arellano, Assistant Secretary Outreach and Intergovernmental Affairs

California Alfalfa Hay July Summary

Northern California: At the beginning of the month Supreme alfalfa was steady on light testing hay. There was some decline in test on later cuttings of hay. Later in the month Supreme dairy hay was mostly firm for quality test hay. Buyers continue to show good interest in higher testing hay.

Southern California: Sales of alfalfa hay was very slow this month, due to limited demand. Most of the trading this month was on low end hay, dry cow hay, Sudan and Bermuda hay.

Shown below are alfalfa hay sales, deliveries and Supreme quality prices per ton, delivered to dairies, as reported by the USDA Market News Service, Moses Lake, WA.

Alfalfa Hay Sales and Deliveries

	June 2000	July 2000
Tons Sold[1]	291,325	256,620
Tons Delivered[2]	143,375	110,495

[1] For current or future delivery.
[2] Contracted or current sales.

California Supreme Hay Prices

Statewide average hundredweight prices

	July 2000 Prices			
Area	7/7	7/14	7/21	7/28
Petaluma	$150-160	$147-150	$135-141	$138-155
North Valley[1]	$135-160	$140-155	$135-155	$135-155
South Valley[2]	$139-152	$145-155	$140-160	$135-150
Chino Valley	N/A	N/A	N/A	$143

[1] North Valley is Escalon, Modesto and Turlock areas.
[2] South Valley is Tulare, Visalia and Hanford areas.

For current pricing information and reports on the FOB market, you may subscribe to the California Alfalfa Hay Weekly Summary. To subscribe call (509) 765-3611. Weekly reports are available on the Internet at:
http://www.ams.usda.gov/marketnews.htm

--Utilization and Blend Prices Continued--

With its 84 percent Class 1 utilization and $4.00 differential, Florida will always have the highest blend price - $15.13 in May 2000. California and the Upper Midwest with their 19 and 17 percent utilization and their $2.16 and $1.80 differentials, respectively, will always have much lower blend prices, $11.17 and $10.27, respectively for May 2000. Which order will have the lowest blend price depends on the products made from the other 82 percent of the milk. The Upper Midwest is heavily weighted toward cheese. California has a more balanced utilization between cheese and other manufactured products (butter, powder, yogurt, ice cream). Currently, the combination of butter and powder prices is much higher than cheese prices. Thus, California's blend price is $0.90 higher. Should the situation reverse, the Upper Midwest will have a higher blend price.

Among other federal orders with low fluid utilization, Arizona and the Pacific Northwest are more similar to California with a balance between cheese and other manufactured products. Like the Upper Midwest, Central and Western are more heavily weighted toward cheese. Thus, they are more subject to the risks of price volatility from "having all their eggs in one basket". The remaining six federal orders tend to have high enough fluid utilization that their blend prices will tend to be a function of the "higher of" fluid price mover.

Should you have any questions regarding this article please contact Tom Gossard at (916) 654-1456.

The Relationship of Milk Utilization and Blend Prices in California and Federal Orders

All figures are for May 2000 unless otherwise stated

California Federal	Class 1 I	Class 2, 3, 4a II, IV	Class 4b III	Blend Price	Federal Class I Differential
	(percent of total utilization)			($/cwt.)	
Florida	84%	14%	2%	$15.13	$4.00
Appalachian	62%	26%	12%	$13.68	$3.10
Southeast	61%	19%	20%	$13.40	$3.10
Mideast	49%	24%	27%	$12.21	$2.00
Southwest	44%	13%	43%	$12.43	$3.00
Northeast	41%	30%	29%	$12.90	$3.25
Pacific NW	36%	25%	39%	$11.70	$1.90
Arizona	28%	40%	32%	$11.79	$2.35
Central	27%	10%	63%	$10.96	$2.00
Western	23%	13%	64%	$10.84	$1.90
CALIFORNIA	***19%***	***41%***	***40%***	***$11.17***	***$2.16 1/***
U.Midwest	17%	4%	79%	$10.27	$1.80
Federal Avg.	38%	18%	44%	$11.94	$2.58
Avg. with CA	34%	23%	43%	$11.78	$2.49

1/ California differential equals the Class 1 price (weighted average based on utilization) less the federal Class I base price, averaged for the months of April through August 2000.

Hundredweight Pool Price

Year	Month	Quota	Overbase
1999	April	$13.26	$11.56
	May	$13.11	$11.41
	June	$13.85	$12.15
	July	$14.40	$12.70
	August	$16.14	$14.44
	September	$15.32	$13.62
	October	$14.55	$12.85
	November	$13.81	$12.11
	December	$12.16	$10.46
2000	January	$11.75	$10.05
	February	$11.65	$ 9.95
	March	$11.73	$10.03
	April	$12.06	$10.36
	May	$12.24	$10.54
	June	$12.78	$11.08

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Federal Order and California Minimum Class 1 Prices

Average Hundredweight Prices @3.5% bf

	2000	
Regions	**July**	**August**
Arizona – Las Vegas	$14.81	$14.30
Southern California	$14.77	$14.20
Seattle	$14.36	$13.85
Northern California	$14.50	$14.93

California Mailbox Prices

January	$10.88
February	$10.72
March	$10.80
April	$11.02

Please direct any comments or suggestions for future newsletters to Candace Gates at (916) 654-1456 or send an e-mail to dairy@cdfa.ca.gov

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CDFA
California Department of Food and Agriculture
Dairy Marketing Branch
1220 N Street, Room A-224
Sacramento, CA 95814